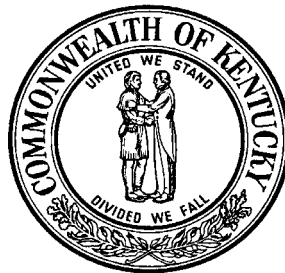


**REPORT OF THE AUDIT OF THE  
CAMPBELL COUNTY  
SHERIFF'S TAX SETTLEMENT - 2003 TAXES**

**March 19, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CAMPBELL COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**March 19, 2004**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for the Campbell County Sheriff as of March 19, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Sheriff collected net taxes of \$29,104,298 for the districts for 2003 taxes. Sheriff distributed taxes of \$29,067,796 to the districts for 2003 taxes. Taxes of \$28 are due to the districts from the Sheriff and refunds of \$2,744 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the Campbell County Sheriff's Settlement - 2003 Taxes as of March 19, 2004. This tax settlement is the responsibility of the Campbell County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Campbell County Sheriff's taxes charged, credited, and paid as of March 19, 2004, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Steve Pendery, Campbell County Judge/Executive  
Honorable John Dunn, Campbell County Sheriff  
Members of the Campbell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2004



CAMPBELL COUNTY  
JOHN DUNN, SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

March 19, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,862,157	\$ 5,944,729	\$ 12,608,775	\$ 4,892,066
Tangible Personal Property	292,029	359,314	890,589	935,755
Tangible - Inventory-In-Transit		17,757		
Intangible Personal Property				339,221
Court Ordered Increases	210	410	964	252
Franchise Corporation	129,454	153,930	421,316	
Supplemental Franchises	18,156	21,518	69,714	
Additional Billings	1,263	2,100	4,539	1,336
Penalties	14,001	19,961	47,503	23,300
Adjusted to Sheriff's Receipt	918	973	284	1,118
Gross Chargeable to Sheriff	<u>\$ 4,318,188</u>	<u>\$ 6,520,692</u>	<u>\$ 14,043,684</u>	<u>\$ 6,193,048</u>
<u>Credits</u>				
Exonerations	\$ 8,915	\$ 13,055	\$ 40,145	\$ 12,208
Discounts	69,457	105,844	223,882	102,763
Delinquents:				
Real Estate	49,943	72,733	176,345	63,262
Tangible Personal Property	6,835	7,284	7,105	16,422
Intangible Personal Property				3,107
Discounts - Franchises	68	85	263	
Uncollected Franchise	920	1,819	3,560	
Total Credits	<u>\$ 136,138</u>	<u>\$ 200,820</u>	<u>\$ 451,300</u>	<u>\$ 197,762</u>
Net Tax Yield	\$ 4,182,050	\$ 6,319,872	\$ 13,592,384	\$ 5,995,286
Less: Commissions *	<u>178,025</u>	<u>212,371</u>	<u>339,810</u>	<u>255,088</u>
Net Taxes Due	\$ 4,004,025	\$ 6,107,501	\$ 13,252,574	\$ 5,740,198
Taxes Paid	4,000,037	6,100,578	13,231,472	5,735,709
Less: Sheriff's Commissions - Current				
Refunds	49	60	128	
Refunds (Current and Prior Year)	<u>4,246</u>	<u>7,529</u>	<u>22,717</u>	<u>4,489</u>
Due Districts or (Refunds Due Sheriff)		**	***	
as of Completion of Fieldwork	<u>\$ (307)</u>	<u>\$ (666)</u>	<u>\$ (1,743)</u>	<u>\$ 0</u>

\*, \*\*, and \*\*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY  
 JOHN DUNN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2003 TAXES  
 March 19, 2004  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	14,757,250
2.5% on	\$	13,592,384
1% on	\$	1,729,958

\*\* Special Taxing Districts:

Library District	\$	(12)
Health District		(5)
Extension District		(5)
Courthouse Commission		(75)
Fire District #1		(197)
Central Campbell Fire District		(2)
Fire District #4		(43)
Fire District #5		(299)
Fire District #6		(28)
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	<u>(666)</u>
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\*\*\* School Districts:

Common School District	\$	(1,001)
Bellevue School District		28
Dayton School District		(492)
Silver Grove School District		(278)
		<hr/>

Due Schools or (Refunds Due Sheriff)	\$	<u>(1,743)</u>
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CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT

March 19, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 19, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
March 19, 2004  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 14, 2003 through March 19, 2004.

Note 4. Interest Income

The Campbell County Sheriff earned \$3,155 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Campbell County Sheriff collected \$56,695 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of August 31, 2004, the Sheriff owed \$56,695 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Campbell County Sheriff collected \$3,096 of advertising costs and \$3,678 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of August 31, 2004, the Sheriff owed \$3,096 in advertising costs to the county and \$3,678 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2003 taxes, the Sheriff had \$5,192 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

## COMMENT AND RECOMMENDATION



CAMPBELL COUNTY  
JOHN DUNN, SHERIFF  
COMMENT AND RECOMMENDATION

March 19, 2004

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to the following:

- 1) Cash recounted and deposited by the Sheriff.
- 2) Surprise cash counts by the Sheriff.
- 3) Reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
- 4) Reconciliation by the Sheriff of monthly collection reports to the receipts ledger and disbursements ledger.
- 5) Requiring dual signatures on checks with one being that of the Sheriff.
- 6) Examination by the Sheriff of tax distributions prepared by another employee.
- 7) Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
- 8) Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

*Sheriff Dunn's Response: We realize this, but it is not realistic.*

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

Condition unchanged and is repeated.

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$11,254,810 And Enter Into A Written Agreement To Protect Deposits

This has been corrected.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Steve Pendery, Campbell County Judge/Executive  
The Honorable John Dunn, Campbell County Sheriff  
Members of the Campbell County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the Campbell County Sheriff's Settlement - 2003 Taxes as of March 19, 2004, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's Settlement - 2003 Taxes as of March 19, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2004

